

# **THE SOCIAL SAFETY NET IN THE UNITED STATES**

Early settlers in what is now the United States emphasized self-reliance and a strong work ethic. Given this history, it is no surprise that American culture and the system of government emphasize individual responsibility, while providing help in many forms to individuals and families who are temporarily or permanently in need. The U.S. federal government funds health care and pension programs for the retired, and provides compensation to the unemployed, support to the disabled, and a wide-ranging public assistance program for the poor. In recent years, these federal assistance programs have accounted for approximately one-half of the entire U.S. federal budget of over \$2,000 billion. The private sector in the United States also plays a large role in public assistance.

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## **HISTORY**

In the late 19th and early 20th centuries, several European nations instituted public-welfare programs. The movement was relatively slow to take hold in the United States in part, many theorize, because the rapid pace of industrialization and the ready availability of farmland in the American heartland and beyond seemed to confirm the belief that anyone who was willing to work could find a job.

The Great Depression, which began in 1929, shattered that belief. For the first time in history, substantial numbers of Americans were out of work because of the widespread failures of banks and businesses. Most of the programs started during the Depression era by President Franklin D. Roosevelt were temporary relief measures, but one of the programs - Social Security - has become an American institution.

In the ensuing years, other American presidents, particularly Lyndon B. Johnson with the Great Society programs of the 1960s, instituted public assistance programs. The 1980s and 1990s, however, saw mounting criticism of certain aspects of the American welfare system. Public debate led to passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, which overhauled public welfare by replacing some federal programs with state-run assistance programs financed by federal grants.

## **MAIN PROGRAMS**

### **1. SOCIAL SECURITY**

Created by the Social Security Act of 1935 as part of the economic and social reforms that made up President Franklin D. Roosevelt's "New Deal," the program initially provided retirement pensions to qualified wage earners who were at least 65 years old, and the payment of a lump-sum death benefit to the estate of a wage earner who died before reaching 65. In 1939 Congress created a separate benefit for secondary beneficiaries (i.e., dependent spouses, children, widows, widowers, and parents of wage earners.)

The Social Security program was expanded again in 1965 to include health insurance benefits under the Medicare program, and to assist the individual states in establishing unemployment compensation programs. Social Security benefits are paid to an individual or his/her family on the basis of the wage earner's individual contributions, which are automatically deducted from his/her earnings, and the contributions made by the person's employer over the course of the person's working life.

Today, Social Security programs include:

#### **Federal Old Age, Survivors, and Disability Insurance (OASDI)**

OASDI benefits are the principal payments usually known as "Social Security" in the U.S. They are monthly payments made to retired people, families whose wage earner has died, and workers who are unemployed because of sickness or accident. Recipients qualify for such payments by having been employed for the mandatory minimum amount of time and by having made contributions to Social Security. There is no financial need requirement to be satisfied. Once a worker qualifies for protection, his/her family (i.e., spouse and/or unmarried minor children) is also entitled to protection.

The OASDI program is a federal program, and is funded by payroll taxes levied on employees, their employers, and the self-employed. The rate of the contributions is based upon the employee's taxable income, up to a maximum taxable amount, with the employer contributing an equal amount. A self-employed person contributes twice the amount levied on an employee.

## **Medicare**

The Medicare program was enacted in 1965. It provides basic health care benefits to recipients of Social Security and is financed by a portion of the Social Security tax, by premiums paid by recipients, and by federal funds. Eligibility for Medicare does not depend on income. Everyone who receives Social Security payments is covered by Medicare, i.e., almost everyone aged 65 and older, and disabled persons under age 65. People who have not worked long enough under Social Security to receive retirement benefits may enroll in the plan by paying a monthly premium.

Medicare is administered by the Centers for Medicare and Medicaid Services of the U.S. Department of Health and Human Services. Unlike other federal programs, it is not supported by a large, centralized organizational hierarchy. Rather, the federal government enters into contracts with private insurance companies for the processing of Medicare claims. Medicare is divided into a hospital insurance program and a supplementary medical insurance program. Medicare payments may be sent directly to the doctor or provider, or to the patient.

## **Unemployment compensation**

Administered by state governments within guidelines established by federal law, unemployment insurance provides employees who have lost their job, through no fault of their own, with monetary payments. This compensation is designed to give an unemployed person time to find a new job, equivalent to the one lost, without major financial distress. In most states, benefits can be paid for a maximum of 26 weeks.

A combination of federal and state taxes is levied on employers to fund state-administered programs that meet minimum federal standards. Federal funds are also used for administrative costs and to set up employment offices that attempt to match workers with new jobs. To be eligible, an individual must have worked for a certain minimum number of weeks and earned wages in at least the amount set by the state law.

## **2. PUBLIC ASSISTANCE**

Until the Great Depression, state and local governments bore some responsibility for providing assistance to the poor, while church and volunteer agencies provided the bulk of any aid. With millions of people unemployed in the 1930s economic depression, welfare assistance was beyond the resources of the individual states. Consequently, federal programs in such areas as medical care, public housing, food stamps and supplemental income were established, with the federal government providing funds either directly to the recipients, or to the states.

During the 1980s and 1990s, criticism of certain aspects of public assistance escalated. Some held that these programs had created a “culture of dependency,” which discouraged people from leaving the welfare rolls and finding employment. Some states began to

experiment with programs that required welfare recipients to find work within a specified period of time, after which welfare benefits would cease.

In 1996, Congress passed the Personal Responsibility and Work Opportunity Reconciliation Act (popularly known as the Welfare Reform Act), which overhauled public welfare programs. The act eliminated some federal programs and put more programs in the hands of the states by providing them with “block grants” (i.e., federal funds transferred to a state for the delivery of specific services under general provisions) to design work-focused, time-limited welfare programs with the goal of moving people from welfare into work. The law also made major changes affecting child support enforcement, child care, the Food Stamp Program, disability benefits for children, and the eligibility of immigrants for federal, state, and local benefits.

Public assistance programs include:

**Temporary Assistance to Needy Families (TANF) - formerly Aid to Families with Dependent Children (AFDC)**

From 1935 until 1996, Aid to Families with Dependent Children (AFDC) was the most common form of welfare payment. Originally designed to help children whose fathers had died, AFDC evolved and expanded over the years to become the main source of regular income for millions of low-income American single-parent families. This program was eliminated in 1996 by the Personal Responsibility and Work Opportunity Reconciliation Act - along with related programs known as the Job Opportunities and Basic Skills Training (JOBS) and the Emergency Assistance (EA). They were replaced by individual state-run assistance programs financed by federal block grants under a program known as Temporary Assistance to Needy Families (TANF).

TANF is administered by the Office of Family Assistance of the U.S. Department of Health and Human Services, Administration for Children and Families. Under this program, states have broad discretion to operate their own programs and to determine who is eligible. Programs can include cash assistance (including wage supplements), child-care, education and job training, transportation. The main federal requirement specifies states use the funds to serve families with children. Another requirement is that, in order to receive TANF funds, states must spend some of their own funds on programs. Two other key elements of state TANF programs are work requirements and time limits: the general rule is that adult recipients with a child over the age of one year are required to participate in a work activity, and that no family may receive federally-funded cash assistance for longer than five years.

**Medicaid**

The Medicaid program was enacted in 1965, and is administered by the U.S. Department of Health and Human Services. It should not be confused with Medicare (described above). Medicaid is jointly funded by the federal and state governments to assist states in providing medical care assistance to many individuals and families with low incomes and

resources. The requirements for receiving Medicaid and the scope of care available vary from state to state.

Under Medicaid, payments are sent directly to the health care providers, not to the patient. Only approved physicians, nursing homes, and other providers of medical care are entitled to receive Medicaid payments for their services. Depending on the state's rules, the patient may also be asked to pay a small part of the cost (co-payment) for some medical services.

### **State Children's Health Insurance Program (SCHIP)**

The Balanced Budget Act of 1997 created a new children's health insurance program called the State Children's Health Insurance Program (SCHIP). This program authorizes states to offer health insurance for children, up to age 19, who are not already insured. The increase in uninsured children is mostly the result of fewer children being covered by their parents' employer-sponsored health insurance.

SCHIP is a state-administered program and each state sets its own guidelines regarding eligibility and services. Families who earn too much to qualify for Medicaid may be able to qualify for SCHIP. The State Children's Health Insurance Program, like Medicare and Medicaid, is overseen by the Centers for Medicare & Medicaid Services of the U.S. Department of Health and Human Services.

### **Supplemental Security Income (SSI)**

SSI was created in 1974. It is designed to help people who are disabled, blind, or aged 65 or older, and who have little or no income and resources. It is a federal income supplement program, providing monthly cash benefits to meet basic needs for food, clothing, and shelter.

Although it is administered by the Social Security Administration, the program is funded by general tax revenues, not Social Security taxes. Moreover, unlike Social Security benefits, SSI benefits are not based on a person's or family member's prior wages.

### **Food Stamp Program and other nutrition programs**

The Food Stamp Program is a joint federal-state program created in 1964. It enables low-income families to buy eligible food with official coupons (or "stamps") or Electronic Benefits Transfer debit cards in authorized retail food stores. The federal government pays for the amount of the benefit received, and the states pay the costs of determining eligibility and distributing the stamps or cards.

Several other nutrition programs exist, sponsored by the federal government and many state and local government agencies: the Special Supplemental Food Program for Women, Infants and Children, the Nutrition Program for the Elderly, the Child and Adult

Care Food Program, the School Lunch and Breakfast Program, the Summer Food Service Program, etc.

## **Public Housing**

Since the late 1930s, the federal government has been providing funds to build public housing for low-income Americans, the elderly, and persons with disabilities. Almost all programs rely on local public housing agencies created by state law or by the local government. Contracts between the U.S. Housing and Urban Development Department and the local agency provide the means for the transfer of the federal funds. Some funding can also be provided by state or local governments.

Applicants for public housing must meet income requirements. If the tenant's financial condition improves, he or she can usually continue living in public housing but is charged a higher rent so that the rent can be kept lower for other tenants with greater needs.

## **STATISTICS**

### **1. SOCIAL SECURITY**

- Over 48 million Americans were receiving Old Age, Survivors, and Disability Insurance (OASDI) benefits in 2005.
- Over 41 million Americans were enrolled in the Medicare program in 2003.
- Federal spending for Medicare amounted to \$270.5 billion in 2004.
- Social Security spending (including Medicare) accounted for 28.7% of federal spending in 2004.
- Social Security spending (including Medicare) represented 5.83% of the U.S. Gross Domestic Product (GDP) in 2004.
- Unemployment compensation spending amounted to \$48.3 billion in 2004.

### **2. PUBLIC ASSISTANCE**

- An average of 4.7 million Americans monthly were receiving Temporary Assistance to Needy Families (TANF) benefits in 2004.
- Nearly 43 million Americans were enrolled in the Medicaid program in 2003. Expenditures amounted to over \$170 billion in 2003, making Medicaid the nation's largest public assistance program.
- Over 6 million children were enrolled in the State Children's Health Insurance Program (SCHIP) in 2004. Expenditures amounted to over \$4 billion in 2003.
- Over 7 million Americans were receiving Supplemental Security Income (SSI) benefits in 2005.
- Over 10 million households and nearly 24 million individuals benefited from the Food Stamp Program in 2004. An average \$2.1 billion a month in benefits were provided.
- Housing assistance spending amounted to \$37.3 billion in 2004.

- There are approximately 1.3 million households living in public housing units.

## **ROLE OF THE PRIVATE SECTOR**

### **1. EMPLOYMENT-BASED BENEFITS**

A vast majority of Americans receive retirement pensions and health coverage through benefits from either their own or a family member's employment. Employee benefit programs have existed in the U.S. since the 19<sup>th</sup> century. They result from a partnership among employers, employees and the government.

#### **Retirement plans**

In 1921, Congress passed the Revenue Act, the first in a number of laws that encouraged companies to create retirement plans through tax incentives. In 1974, Congress passed the Employee Retirement Income Security Act (ERISA), which was designed to secure uniform minimum standards for participants and to provide added pension incentives for the self-employed, and for persons not covered by a company's pension plan (i.e., through an individual retirement account funded by the individual.)

Most retirement plans are provided voluntarily by businesses to attract and retain employees. The government supports these plans by granting favorable tax treatment both to the employers that sponsor them and to the workers who receive them. For example, employees may make pre-tax salary contributions to certain plans known as 401(k)s. They are not taxed on these contributions.

Pension plans generally offer retiring participants a choice between two payment options: an annuity, in which the benefit is paid out in a stream of regular payments, usually monthly and usually over the life of the participant (or of the spouse) but sometimes over some other specified period; or in a lump sum. The type of distribution and when it is taken determines the tax treatment.

As of 2003, roughly one-third of Americans aged 65 or older received a work-related pension, and 57.1% of full-year workers participated in a retirement plan.

#### **Health insurance**

Like pension coverage, employment-based health insurance was encouraged by a series of laws. The 1954 Revenue Act in particular excluded from taxation employers' contributions to accident and health plans benefiting employees. In 1974, the Employee Retirement Income Security Act (mentioned above) set uniform standards that employee benefit plans, including health insurance, must follow to obtain and maintain their tax-favored status.

Insurance plans vary considerably. Some include coverage for dental work and others for mental health counseling and therapy; others do not. Some are paid for jointly by the employer and employee; others by the employee alone. Under the most common type of plan, the employee pays a monthly premium, or fee, as does the employer. In return, the insurance company pays a large percentage of the employee's medical costs above a small amount known as a deductible.

During the 1990s, managed care employment-based health insurance plans became widely available as a way of holding down rising health care costs. Under such plans, employees receive health care through preferred-provider organizations (PPOs) or health maintenance organizations (HMOs), which provide all of a person's medical care for a set fee paid in advance. Some Americans, however, are wary of such plans as they limit the patient's freedom to choose his or her doctors.

Employment-based health insurance is the most common form of health insurance coverage in the United States. In 2003, 101.5 million employees aged 18–64 (i.e., 7 of every 10 American workers) were covered by employment-based health benefits. The employment-based health benefits system also covers 14.9 million non-working adults, ages 18–64, and 42.9 million children under age 18.

## **2. CHARITABLE ORGANIZATIONS**

Needy Americans can also turn to sources other than their federal or state government for help. A broad spectrum of private charities and voluntary organizations is available. Volunteerism is on the rise in the United States, especially among retired persons. It is estimated that almost 50 percent of Americans over age 18 do volunteer work, and nearly 75 % of U.S. households contribute money to a charity.

Some of the largest charitable organizations operating in the United States include:

### **The Salvation Army**

Created in 1865, the U.S. branch of this international Christian movement provides – without distinction of nationality, color or creed – multiple social service programs: food programs for the hungry, relief for disaster victims, assistance for the disabled, outreach to the elderly and ill, clothing and shelter to the homeless, opportunities for underprivileged children, financial planning, job placement and rehabilitation services for alcoholics and drug addicts. More than 33 million Americans received help from the Salvation Army in 2004.

### **The American Red Cross**

Created in 1881, the American branch of the International Federation of the Red Cross aims to help people avoid, prepare for, and cope with emergencies when they occur. The organization offers compassionate services in the following areas: emergency assistance and disaster relief; volunteer blood services; health and safety education and training;



community services that help the needy and support and comfort for military members and their families. Each year, the American Red Cross responds to more than 70,000 disasters and trains almost 12 million people in lifesaving skills. It is the largest supplier of blood and blood products to more than 3,000 hospitals across the country.

### **America's Second Harvest**

Incorporated in 1979, America's Second Harvest is the nation's largest charitable hunger-relief organization. Its network secures and distributes nearly 2 billion pounds of donated food and grocery products annually. It supports approximately 50,000 local charitable agencies operating more than 94,000 programs including food pantries, soup kitchens, emergency shelters, after-school programs, and Kids Cafes. In 2005, it provided food assistance to more than 23 million low-income hungry people in the United States, including more than 9 million children and nearly 3 million seniors.

## **SUMMARY – PROGRAMS AND FUNDING**

	FEDERAL GOVERNMENT	STATE OR LOCAL GOV.	EMPLOYERS	EMPLOYEES	CHARITABLE ORGANIZATIONS
<b>SOCIAL SECURITY:</b> - OASDI - Medicare - Unemployment compensation	 x x x	  x	 x x x	 x x	
<b>EMPLOYMENT- BASED BENEFITS:</b> - Retirement plans - Health insurance	 x (*) x (*)		 x x	 x x	
<b>PUBLIC ASSISTANCE:</b> - TANF - Medicaid - SCHIP - SSI - Food stamps - Public housing	 x x  x x x	 x x x  x x			
<b>VARIOUS CHARITABLE ASSISTANCE PROGRAMS</b>					     x

(\*) Note: The federal government provides tax breaks for these programs but does not fund them directly.

## **ISSUES FOR THE FUTURE**

### **Social Security Reform**

Recently, there has been concern that the Social Security fund may not have enough money to fulfill its obligations in the 21st century, when the population of elderly Americans is expected to increase dramatically. The ratio of covered workers to beneficiaries, which was 16.5 to 1 in 1950, fell to 3.4 to 1 in 2000 and is expected to fall to 2.0 to 1 in 2040. Policy-makers have proposed various ways to make up the anticipated deficit, but a long-term solution is still being debated. Currently, the Social

Security system is generating surplus revenues. However, its board of trustees reports that, under its intermediate (or mid-range) projections, the trust funds would be depleted in 2041.

### **Soaring medical costs**

In the last 40 years, the cost of medical care in the United States has dramatically increased. Health expenditures rose from \$204 per person in 1965 to \$5,670 per person in 2003. U.S. health expenditures in 2003 amounted to \$1.7 trillion, i.e., 15.3 % of Gross Domestic Product (GDP), outpacing growth in the overall economy by 3 percentage points. Similarly, employers spent \$331 billion in 2003 for health insurance for employees, a 50% increase since 1998. This represents an average of \$3.80 per hour for each employee who participated in health insurance coverage. Consequently, companies are increasingly asking employees to pay a greater share of health care costs, or even eliminating coverage.

### **The uninsured**

One of the most troubling health care challenges facing the United States has been the question of how to provide care for those who cannot afford health insurance and yet who are not eligible for either Medicaid or Medicare. It has been estimated that 15.2% of all Americans - roughly 45 million people - are without health insurance at least part of the year. They may be children or adults who are unemployed or have jobs without medical coverage or who live just above the poverty line. They can receive free or reduced-cost emergency treatment from most hospitals and community health centers, but they often fail to obtain chronic or preventive care. A 1986 federal law requires hospitals to provide treatment to patients in their emergency rooms, regardless of the patients' ability to pay.

### **FURTHER READING**

- Social Security Administration (SSA): <http://www.ssa.gov/>
- Centers for Medicare & Medicaid Services (CMS): <http://www.cms.hhs.gov/>
- Office of Family Assistance (OFA): <http://www.acf.dhhs.gov/programs/ofa/>
- Food and Nutrition Service (FNS): <http://www.fns.usda.gov/fns/default.htm>
- Employee Benefit Research Institute (EBRI): <http://www.ebri.org/>
- The Salvation Army: <http://www.salvationarmyusa.org>
- American Red Cross: <http://www.redcross.org>
- America's Second Harvest: <http://www.secondharvest.org/>